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East Asia Biweekly Review

2 May 1978

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RP EABR 78-010
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EAST ASIA BIWEEKLY REVIEW

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This publication is prepared for regional specialists in the Washington community by the East Asia/Pacific Division, Office of Regional and Political Analysis, with occasional contributions from other offices within the National Foreign Assessment Center. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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An Historical Perspective on the Senkaku Islands Dispute

The recent incursions of some 200 Chinese fishing boats into Japanese-claimed waters off the Senkaku Islands in the East China Sea have further delayed the resumption of negotiations on the long-pending Sino-Japanese peace and friendship treaty. The Japanese claim to the Senkakus was virtually uncontested until 1968 when a UN survey suggested that oil deposits might be found in the vicinity. Since then, Taiwan and subsequently China have claimed the islands.

Latest Incident

The incursions by Chinese fishing boats began on 12 April and ended two weeks later. Peking has claimed that the incursions were "accidental;" according to the Chinese, the fishermen strayed into the area as they chased filefish--a species the Japanese do not catch. Chinese officials also pointed out that when their boats had fished near the Senkakus in 1977, Tokyo had not objected and that the recent incident could have been resolved through normal diplomatic channels.

Notwithstanding Peking's explanations, the incident stirred a strong reaction in Tokyo. Aside from generating strong domestic support for Tokyo's protest of the incursions, it has raised questions concerning Peking's motives and tactics. Demands by Japanese opponents of the peace and friendship treaty that the Senkaku territorial dispute be settled before resuming negotiations* reportedly prompted the Chinese to reassert their claim to the islands. In any case, the incursions have slowed movement on the treaty for the time being. The Chinese action may also affect the course of pending legislation in the Japanese Diet for the implementation of the Japan - South Korea Continental Shelf Agreement, which

*This demand conflicts with an earlier understanding reached by Japan and China that the territorial issue would be treated separately from the treaty.

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deals with development of oil resources in another area claimed by China.



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Physical Setting

The Senkaku Islands--to the Chinese, the Tiao-yu Tai--comprise a chain of eight uninhabited islets about 200 nautical miles from China, 100 nautical miles from Taiwan, and 80 nautical miles from the nearest inhabited island in the Ryukyu chain. The Senkakus are commonly considered part of the Japanese prefecture of Okinawa. From evidence collected in a 1969 Japanese geological survey, there is little doubt that the islets are also part of the continental shelf.

There is a submarine trench about 40 nautical miles southeast of the islands separating the Senkakus and the East China Sea continental shelf from the Ryukyu Islands. This trench provides the basis for the Chinese claim that the Senkakus are physically detached from the Ryukyu chain.

Japan: In 1895, the Japanese Government installed markers on the islands signifying that they belonged to Okinawa and proclaimed the Senkakus as Japanese territory. Four of the islands were then leased for 30 years to Japanese farmers. Tokyo alleges that it conducted several investigations of the islands in order to confirm that they were uninhabited and outside Chinese authority.

After World War II, the Ryukyus were placed under US administration; they were returned to Japan in 1972 when the US relinquished its administrative rights to the area. Since then, the Japanese Maritime Safety Agency has patrolled the area routinely.

Taiwan: Taiwanese fishermen provided the only Taiwanese contact with the Senkakus before 1969, when the Japanese survey confirmed the findings of the UN team. The Taiwanese have occasionally fished for bonito

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and shellfish in the waters near the Senkaku Islands; for their part, Japanese fishermen seldom operate there because the winds and currents are largely unfavorable. The Taiwanese have also searched the islets for eggs, feathers, turtle shells, and guano. In July 1969, Taiwan simultaneously granted a concession to an American oil firm to explore the area around the Senkakus for oil and informally disputed the Japanese claim to the islands. In doing so, Taipei based its case on the San Francisco Peace Treaty of 1952, which limited Japan's sovereignty to the four main Japanese islands.

In 1971, the Nationalist government took an even stronger position by publicly claiming sovereignty over the Senkaku Islands. Taiwan also requested that the US "respect the sovereign rights of the Republic of China over the Tiao-yu Tai islets and restore them to the Government of the Republic of China when the US occupation of the Ryukyu Islands terminates."

China: China made no significant public statement concerning the islands or the continental shelf when the possibility of oil deposits in the area prompted the dispute between Japan and Taiwan. In the fall of 1970, however, Peking attacked business efforts in Tokyo, Taipei, and Seoul to foster cooperation in the development of the area. Subsequently, in a 30 December 1971 statement, the Chinese Foreign Ministry declared that the Senkakus have been an inseparable part of Chinese territory since ancient times, citing among other things, Ming dynasty documents of 1403 that supposedly mention the islands. When Okinawa reverted to Japan in 1972, Peking once again proclaimed its sovereignty over the islands.

China's public claims to the Senkakus were motivated by what was considered to be a dangerous foreign infringement of Peking's territorial rights. China may also have feared that Japanese-Taiwanese cooperation in developing the continental shelf's oil resources would strengthen Tokyo's interest and influence in Taipei, thus complicating the ultimate settlement of the Taiwan problem. (SECRET NOFORN-NOCONTRACT-ORCON)

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Burma: Disenchantment with China

The Burmese Government reportedly has presented a sharp note to the Chinese Ambassador in Rangoon protesting Chinese backing of the approximately 10,000 Burmese Communist insurgents in northeast Burma along the Chinese border. Although China's direct involvement in the insurgency has been reduced since the early 1970s, Rangoon has become increasingly frustrated over its inability to persuade China to end its support for the insurgents. The reported protest may stem from President Ne Win's outrage over an upsurge in the insurgency immediately following Chinese Vice Premier Teng Hsiao-ping's visit to Rangoon early this year. While there is no evidence that the Chinese were responsible for the stepped-up rebel activity, Ne Win may have interpreted it as a particularly gratuitous show of Chinese insensitivity to Burmese concerns.

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Burmese are prepared to publicize testimony from 82 Chinese troops captured in counterinsurgency operations if the Chinese do not give some assurance of cutting back their support.

We have no confirmation of the protest, and such a forceful and direct approach would be out of character for Burma. Anxious not to antagonize its powerful northern neighbor, it has until now been notably oblique in raising the matter and patient with Chinese evasiveness. Ne Win has tried without success to draw out the Chinese on the subject in his repeated trips to Peking. He also hoped that he could work out a solution with Teng, and his disappointment on this score may have prompted him to order a change in diplomatic tactics.

A protest would be in line with other indications of Rangoon's downgrading of its relations with China. Recently Burma named a junior diplomat as new Ambassador to China and published unusual if not unprecedented criticism of China in its party journal. At the same time, Burma is showing signs of greater openness toward its

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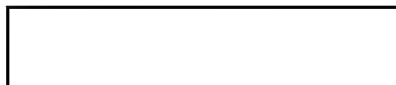
non-Communist neighbors and the US. Burmese diplomats have also reportedly been instructed to sound out US officials on a visit by Ne Win.

Despite its annoyance, it is unlikely that Burma would risk provoking China by giving heavy play either to its protest or to the statements of Chinese prisoners it claims to hold. In the absence of sustained publicity from Rangoon, Peking will probably respond by pigeonholing the Burmese protest. (SECRET NOFORN-ORCON)

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Burma: Strains with Bangladesh

Burma's efforts to root out illegal residents in Arakan State along the Bangladesh border have prompted a flow of refugees into Bangladesh that has complicated bilateral relations and could increase tensions.

In February, Rangoon moved to enforce immigration laws against Arakan State residents of Bangladesh origin. Burma claims there are 75,000 illegal residents in the state, about one-half of them recent arrivals. The high-handed manner of some of the 200 immigration officers sent into the area apparently prompted the flight of up to 20,000 refugees into Bangladesh by late last week, and the press has reported that the flow increased over the weekend.

The Bangladeshi press and government claim there have been at least four incidents of firing between Burmese and Bangladeshi forces. During one operation, Burmese troops reportedly crossed the border and burned three Bangladesh villages. Rangoon has expressed regret for the incident and promised compensation. Bangladeshi officials accept Burma's right to enforce its immigration controls, but--overwhelmed with refugees--have urged Rangoon to suspend the measures that have prompted the flow of migrants.

There has long been a drift of Bangladeshis across the border into underpopulated Arakan. Several hundred thousand Bangladeshis live in Arakan and outnumber the Buddhist Burmese in some areas. Rangoon sees illegal immigration from Bangladesh as adding to existing Muslim disaffection and separatist tendencies in the remote state.

Alert to Bangladeshi mischiefmaking among Arakanese Muslims, Rangoon expelled the Bangladeshi military attache last year for alleged involvement with separatists. Although Rangoon has accepted a replacement, it remains concerned over subversion among the large alien minority.

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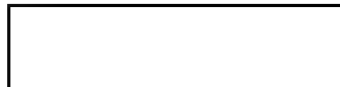
There has been an exchange of official delegations to discuss the problem, and another round of talks is planned for this week. Bugged down with insurgencies in all its other border areas, Rangoon would presumably not want to inflame the situation along the Bangladeshi border. It is also concerned over possible international Islamic criticism of Burma's treatment of its Muslim minority. Bangladesh apparently did not raise the issue at the international Islamic conference in Guinea last week, but the Bangladeshi press has charged the Burmese military with atrocities against the refugees. The government has told foreign diplomats in Dacca that the press reports are "generally accurate." Although neither side wants to push the situation to a confrontation, Rangoon's determination to rid itself of unwanted aliens--along with Dacca's compulsion to support its ethnic kin--seems to rule out an easy solution. (SECRET NOFORN)

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South Korea: Cautious Import Liberalization Policy

South Korea, which had a half-billion-dollar trade surplus with the United States last year, is cautiously liberalizing its restrictive import policy. A five-year program, announced on 15 April, will remove curbs on 321 commodities by 1982. This follows an easing of barriers on almost 200 items late last year. Commodities were carefully selected for liberalization; many are already freely imported in practice, and others are not competitive on the Korean market.

Taken together, the liberalization measures should result in about \$700 million in additional imports in 1978, mainly industrial raw materials and capital equipment. Japan stands to benefit most from the changes, although Seoul is encouraging increased purchases from US and West European suppliers.

Background

Since assuming power in 1961 the Pak Chong-hui government has maintained a wide array of nontariff import barriers to protect domestic industries and keep out non-essential goods. The semiannual trade plan with its list of banned and restricted items is the most effective barrier. Seoul also employs an export-import link system, end user requirements, and import deposit requirements to restrict the inflow of foreign goods.

The Push for Liberalization

A dramatic improvement in South Korea's balance of payments in 1976 and further gains in 1977 enabled the government to consider easing import barriers. A doubling of exports in two years and a sharp rise in receipts from overseas construction work pushed South Korea's current account into the black in 1977 for the first time in more than a decade. Moreover, rapidly increasing foreign exchange inflows contributed to inflationary pressures. Foreign exchange reserves

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increased 45 percent last year, leading to a 40-percent hike in the money supply. Seoul resorted to extensive price controls and tight credit restrictions to keep within its 10-percent inflation ceiling and began to consider import liberalization as an anti-inflation tool.

The government's liberalization policy also grew out of rising pressure from its trading partners, especially the United States. Seoul wants to avoid trade problems with Washington at a time when the Pak Tong-sun scandal has strained relations and when military aid decisions are being made by the US Congress. For the first time, Seoul has set import as well as export targets for its trade with the United States to hold down its bilateral surplus.

The South Korean leadership has been widely split on the liberalization issue. The Economic Planning Board, concerned with slowing inflation and improving Korean export competitiveness, has pushed hard for a rapid easing of controls. The Ministry of Commerce and Industry, citing the growing wave of protectionism in the developed countries, has offered strong resistance.

Implementing Liberalization Measures

The measures implemented last year were narrow in scope but becoming more substantial as the year ended. The steps taken in June and July, namely, the removal of 46 subitems from the restricted list, were largely window dressing. The trade plan announced in late 1977 for the first half of 1978 went further, removing restrictions on 186 commodities. The trade plan and subsequent administrative guidelines also lifted end-user requirements on 40 machinery items, abolished the export-import link system, lifted restrictions on certain types of textile machinery, and dropped import ceilings on a list of 300 items covered in specific commodity legislation.

The pressure for liberalization increased early this year because of a pronounced rise in inflation, from 10 percent in 1977 to 24 percent (annual rate) in the first quarter of 1978. Responding to an order from President Pak, a committee was established in January

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and quickly set up guidelines. Key considerations included a desire to foster Korean export competitiveness while at the same time protecting emerging industries, especially heavy and chemical industries.

The liberalization program announced on 15 April will remove curbs on 321 subitems over the next five years--133 items this month, 78 in 1979-80, and 110 in 1981-82. The cautiousness of the program is reflected in the categories singled out for early liberalization. They include commodities in which Korea lacks comparative advantage, commodities that are not produced in Korea, and commodities in which Korea is strongly competitive.

Impact of the Measures

According to government estimates, the measures announced in November and December 1977 were expected to boost 1978 imports by \$500 million to \$1 billion; in practice, the increase probably will not exceed \$500 million. The additional measures announced on 15 April should add another \$200 million to 1978 imports, raising total purchases to about \$13.5 billion. Given the changes expected in exports and in the services accounts, the 1978 current account probably will show a deficit close to the \$300 million now estimated by the government.

The impact of the program is limited by the commodities selected for liberalization. Many of the items already are being freely imported in practice, while others, such as black and white television sets, are not competitive on the Korean market.

The increase in foreign purchases in 1978 will primarily involve raw materials, capital equipment, and technology, especially those items destined for Korean export firms. Selected food products will be imported more freely for stabilization purposes. In contrast, imports will remain highly restricted for most agricultural commodities, most consumer products, and those industrial goods the government is trying to foster domestically.

Japan, which supplies 37 percent of South Korean imports, stands to benefit most from the reduction in

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barriers. Seoul, however, will attempt to divert benefits to US and West European suppliers by actively encouraging purchases from those sources. A massive trade deficit with Japan in January and February has intensified government efforts in this direction. Pressure is being applied to Korean trading companies and Japanese trading firms in Korea to meet specified targets to close the trade gap.

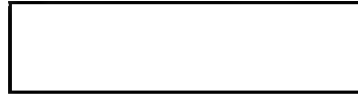
Evaluation

The South Korean Government, while apparently serious about moving toward a more open trading system, is proceeding cautiously because of strong domestic opposition to liberalization. Introduction of a new surveillance category in the trade plan--in which commodities are monitored and could be moved back to the restricted list--leaves the Pak government the option of backtracking should payments problems arise.
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North Korea Chronology

- 2 April Soviet IL-62 passenger planes begin regular direct flights between Moscow and Pyongyang. The flight time is reduced from 12 to 8 hours, according to Moscow radio. (U)
- 6 April The Yugoslav Ambassador to North Korea presents Foreign Minister Ho Tam a message from President Tito to Kim Il-song, according to a Yugoslav news agency dispatch from Peking. North Korea does not report the message; Pyongyang has maintained a discreet silence on the proposal for trilateral talks among the US and the two Koreas, which reportedly was raised by Tito when he was in Washington in early March. (U)
- 12-13 April Romanian President Ceausescu meets with President Carter. A White House spokesman acknowledges that Korea is discussed, but it is not mentioned in the communique issued at the end of the talks. (U)
- 17 April The secretaries of the North Korean and UN Command delegations to the Military Armistice Commission hold their 450th meeting at Panmunjom. The UNC delivers a letter refuting charges by Pyongyang of numerous minor violations along the truce line during the past six months contained in a North Korean statement of 24 March. (U)
- Kim Il-song, in his first public appearance in nearly three weeks, meets separately with a Japanese labor union official and the new Ambassador from Guyana.

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17 April Kim, who turned 66 on 15 April, oftentimes withdraws from public view for periods of two to three weeks, usually before entering into a heavy schedule of affairs of state. (U)

18 April Pyongyang radio quotes remarks by Romanian President Ceausescu that he had not presented proposals to President Carter on Korean reunification because "this is the right of the Koreans themselves." (U)

North Korea seizes a Japanese fishing boat for allegedly violating the 50-mile coastal security zone in the Sea of Japan. The boat and crew are released six days later. (U)

18-20 April The second session of the 6th Supreme People's Assembly convenes in Pyongyang with Kim Il-song in attendance. The Assembly adopts a labor law and a state budget for 1978. The percentage of announced state expenditures for defense is increased slightly, from 15.7 to 16 percent. (U)

19 April The Japanese daily, Yomiuri, reports that the US Table Tennis Association is planning to send a team to participate in the biennial world ping pong championship games scheduled to be held in Pyongyang in the spring of 1979. (U)

21-27 April Prime Minister Burnham of Guyana visits North Korea following his trip to Moscow. Burnham is the first of a number of high-level visitors to Pyongyang expected in the next month or so, including Chinese party chairman Hua Kuo-feng and Romanian President Ceausescu. (U)

25 April The North Korean Army, adhering to a decision announced in February to adopt the

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founding date of the anti-Japanese guerilla forces in 1932, marks its 46th anniversary. Kim Il-song does not attend the meeting in Pyongyang but, as is customary, makes an inspection visit to a military unit accompanied by the top military leadership. (U)

- 26 April North Korea, in relatively mild terms, criticizes President Carter's statement on 21 April announcing a delay in the implementation of the first phase of the US troop withdrawal scheduled for late 1978. (U)
- 26 April Former agriculture specialist Kim Man-kum, speaking at a rally to welcome Prime Minister Burnham, is identified for the first time as chairman of the Pyongyang municipal people's committee. Kim replaces Vice Premier Chong Chun-ki, who was named to the municipal post in March 1977. (U)
- 27 April North Korea broadcasts its first report on the downing in the Soviet Union of a South Korean airliner on 21 April. (U)
- 28 April South Korea sinks a North Korean boat engaged in infiltrating a political agent off the southern coast. (U)

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